DOCUMENT RESUME

ED 256 262 HE 018 327

TITLE	Hearing on Pell Grant Shortfall. Hearing before the Subcommittee on Postsecondary Education of the Committee on Education and Labor. House of Representatives, Ninety-Eighth Congress, Second Session, June 19, 1984.
INSTITUTION	Congress of the U.S., Washington, D.C. House Committee on Education and Labor.
PUB DATE	85
NOTE	54p.; Portions contain small/light print.
AVAILABLE FROM	Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402.
PUB TYPE	Legal/Legislative/Regulatory Materials (090)
EDRS PRICE	MF01/PC03 Plus Postage.
DESCRIPTORS	Age Groups; Budgets; Economically Disadvantaged; *Federal Aid; Federal Programs; Financial Aid Applicants; Financial Needs; *Financial Problems; *Grants; Hearings; Higher Education; Low Income Groups; Nontraditional Students; Problem Solving; Public Policy; *Self Supporting Students; *Student Characteristics; *Student Financial Aid
IDENTIFIERS	*Pell Grant Program

ABSTRACT

Hearings on the reasons for the Pell Grant Program shortfall and possible solutions are presented. The U.S. Department of Education's estimate was for a Pell grant shortfall of $307 million for 1983-1984, which was borrowed from the fiscal year 1984 appropriations. Current funding for Pell Grants is below what is necessary because initial funding for the 1983-1984 academic year was insufficient and because a larger number of students who are financially independent of their parents applied for grants than was expected. An increased number of applicants in the age group 23 to 27 was found; 62 percent of the total increase was for students over age 27. These increases come primarily from family incomes of less than $7,500; the income from the independent student-adjusted gross income runs around $4,000. About 48 percent of the increase in applicants came from the students who were unemployed, or receiving welfare or other government benefits. The data on applicants indicate that lower income students seem to be taking advantage of the Pell Grant program. Three options are: to seek a supplemental appropriation; to publish a reduced payment schedule; or to seek an increased appropriation for FY 1985 to cover the funds that have been drawn down from the FY 1984 appropriation. (SW)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

HE

HEARING ON PELL GRANT SHORTFALL

ED256262

HEARING

BEFORE THE

SUBCOMMITTEE ON POSTSECONDARY EDUCATION

OF THE

COMMITTEE ON EDUCATION AND LABOR HOUSE OF REPRESENTATIVES

NINETY-EIGHTH CONGRESS

SECOND SESSION

HEARING HELD IN WASHINGTON, DC, JUNE 19, 1984

Printed for the use of the Committee on Education and Labor

HE 118 327

U.S. DEPARTMENT OF EDUCATION
NATIONAL INSTITUTE OF EDUCATION
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

☐ This document has been reproduced as received from the person or organization originating it.

☐ Minor changes have been made to improve reproduction quality.

Points of view or opinions stated in this document do not necessarily represent official NIE position or policy.

U.S. GOVERNMENT PRINTING OFFICE

40-571 O WASHINGTON : 1985

ED252503

COMMITTEE ON EDUCATION AND LABOR

CARL D. PERKINS, Kentucky, *Chairman*

AUGUSTUS F. HAWKINS, California
WILLIAM D. FORD, Michigan
JOSEPH M. GAYDOS, Pennsylvania
WILLIAM (BILL) CLAY, Missouri
MARIO BIAGGI, New York
IKE ANDREWS, North Carolina
PAUL SIMON, Illinois
GEORGE MILLER, California
AUSTIN J. MURPHY, Pennsylvania
BALTASAR CORRADA, Puerto Rico
DALE E. KILDEE, Michigan
PAT WILLIAMS, Montana
RAY KOGOVSEK, Colorado
MATTHEW G. MARTINEZ, California
MAJOR R. OWENS, New York
FRANK HARRISON, Pennsylvania
FREDERICK C. BOUCHER, Virginia
GARY L. ACKERMAN, New York
SALA BURTON, California
CHARLES A. HAYES, Illinois
DENNIS E. ECKART, Ohio
TIMOTHY J. PENNY, Minnesota

JOHN N. ERLENBORN, Illinois
JAMES M. JEFFORDS, Vermont
WILLIAM F. GOODLING, Pennsylvania
E. THOMAS COLEMAN, Missouri
THOMAS E. PETRI, Wisconsin
MARGE ROUKEMA, New Jersey
STEVE GUNDERSON, Wisconsin
STEVE BARTLETT, Texas
RON PACKARD, California
HOWARD C. NIELSON, Utah
ROD CHANDLER, Washington
THOMAS J. TAUKE, Iowa
JOHN McCAIN, Arizona

SUBCOMMITTEE ON POSTSECONDARY EDUCATION

PAUL SIMON, Illinois, *Chairman*

WILLIAM D. FORD, Michigan
IKE ANDREWS, North Carolina
RAY KOGOVSEK, Colorado
FRANK HARRISON, Pennsylvania
MAJOR R. OWENS, New York
GARY L. ACKERMAN, New York
PAT WILLIAMS, Montana
TIMOTHY J. PENNY, Minnesota
CARL D. PERKINS, Kentucky
(Ex Officio)

E. THOMAS COLEMAN, Missouri
STEVE GUNDERSON, Wisconsin
JAMES M. JEFFORDS, Vermont
WILLIAM F. GOODLING, Pennsylvania
THOMAS E. PETRI, Wisconsin
RON PACKARD, California
(Ex Officio)
MARGE ROUKEMA, New Jersey

CONTENTS

	Page
Hearing held in Washington, DC, on June 19, 1984	1
Statement of—	
Elmendorf, Hon. Edward, Assistant Secretary for Education, Department of Education, accompanied by Sally H. Christensen, Director, Budget Office; and Sally Kirkgasler, Director, Office of Policy Development	10
Martin, Dallas, executive director, National Association of Student Financial Aid Administrators	31
Ozer, Katherine, legislative director, United States Student Association	44
Prepared statements, letters, supplemental materials, etc.—	
Conte, Hon. Silvio, a Representative in Congress from the State of Massachusetts and ranking Republican member, Committee on Appropriations, letter from Congressman E. Thomas Coleman, dated June 18, 1984	4
Elmendorf, Edward M., Assistant Secretary. Postsecondary Education, Department of Education, prepared statement of	15
Martin, Dr. Dallas, executive director, National Association of Students Financial Aid Administrators, on behalf of American Association of Community and Junior Colleges, American Association of State Colleges and Universities, American Council on Education, Association of American Universities, Association of Catholic Colleges and Universities, Association of Jesuit Colleges and Universities, Association of Urban Universities, National Association of Colleges and University Business Officers, National Association for Equal Opportunity in Higher Education, National Association of Independent Colleges and Universities, National Association of Schools and Colleges of the United Methodist Church, and National Association of State Universities and Land-Grant Colleges, prepared statement of	36
Ozer, Katherine, legislative director, United States Student Association, Washington, DC, prepared statement of	47
Penner, Rudolph G., Director, Congressional Budget Office, U.S. Congress, Washington, DC, letter to Chairman Simon, with attachment	5
Simon, Hon. Paul, a Representative in Congress from the State of Illinois and chairman, Subcommittee on Postsecondary Education, letter to Hon. William H. Natcher, a Representative in Congress from the State of Kentucky and chairman, Subcommittee on Labor, Health and Human Services, and Education Appropriations, dated June 18, 1984	2

HEARING ON PELL GRANT SHORTFALL

TUESDAY, JUNE 19, 1984

HOUSE OF REPRESENTATIVES,
COMMITTEE ON EDUCATION AND LABOR,
SUBCOMMITTEE ON POSTSECONDARY EDUCATION,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:10 a.m., in room 2261, Rayburn House Office Building, Hon. Frank Harrison (acting chairman of the subcommittee) presiding.

Members present: Representatives Harrison, Coleman, Gunderson, Jeffords, and Packard.

Staff present: Laurie A. Westley, assistant counsel; and John Dean, Republican assistant counsel.

Mr. HARRISON [presiding]. Good morning.

The purpose of this morning's hearing is to explore the reasons for and the solution to the shortfall in the Pell Grant Program.

I am Frank Harrison of Pennsylvania, and I have the honor of sitting in for Mr. Simon of Illinois who couldn't be with us this morning.

The hearing was originated by virtue of a recent letter from the Department of Education. The Department has estimated that the Pell grant shortfall will be $307 million, which has already been borrowed from the fiscal year 1984 appropriations to pay the fiscal year 1983 obligations.

At this point, without objection, I would include in the record a letter to the Honorable William Natcher, the chairman of the Appropriations Subcommittee with jurisdiction, and a letter from the ranking minority member, Mr. Coleman, to Congressman Silvio Conte, the ranking minority member of that Appropriations Subcommittee.

[Letter to William H. Natcher follows:]

COMMITTEE ON EDUCATION AND LABOR
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515
SUBCOMMITTEE ON POSTSECONDARY EDUCATION

June 18, 1984

Honorable William H. Natcher, Chairman
Subcommittee on Labor, Health and
Human Services, and Education Appropriations
2358 Rayburn House Office Building
Washington, DC 20515

Dear Mr. Chairman:

I am writing to request that you consider including in the second FY 1984 Supplemental Appropriation bill at least $300 million in additional Pell Grant funding for academic year 1984-85. These funds would replace $307 million which were borrowed from the Congress' FY 1984 Pell Grant appropriation to pay 1983-84 entitlements.

As you know, the Department of Education has recently informed the Subcommittee that it has borrowed $307 million from the FY 1984 appropriation to pay FY 1983 entitlements. I understand that they have drawn down this amount in two installments, one last January for $99 million and the balance more recently. I do not know whether the full $307 million will be used this year, but from all indications at least $200 million in additional outlays will be needed to pay for 1983-84 awards. In addition, at least another $100 million will be needed to permit 1984-85 awards to be funded at the level approved by the Congress.

The reasons given for the shortfall in the Pell Grant Program are varied. The National Association of Student Financial Aid Administrators (NASFAA) explains the shortfall with the historical fact that in times of high rates of unemployment, postsecondary enrollments have always increased. In fact, the Department's Pell Grant Estimation Model does not include unemployment as a variable. NASFAA member schools have experienced an increase in older independent students taking one or two year programs at vocational/technical schools and community colleges. Another factor NASFAA identified as contributing to the shortfall is the lack of growth in real income, coupled with the increased tuition costs at schools has resulted in additional families remaining eligible for the Pell Grant Program.

The Congressional Budget Office (CBO) believes the reason for the shortfall is the increased number of independent students who applied for and received Pell Grants. Although CBO does not have detailed data on the characteristics of applicants, the number and proportion who are financially independent of their parents increased between 1982-83 and 1983-84. This factor alone accounts for an estimated $92 million increase in Pell Grant expenditures, based on CBO's projected increase in the program (4.8 million applicants) in 1983-84 and 5 million in 1984-85. Altogether, CBO estimates Pell Grants will cost $2,963 million in the 1984-85 school year or $163 million more than the FY 1984 appropriation. CBO estimates that the expected shortfall for the 1983-84 and 1984-85 school years will equal $353 million.

The important point, at this time, is not which factors contributed to the shortfall but what will be done to remedy the shortage of Pell Grant funds. If the shortfall is funded from FY 1984 appropriations and the factors persist, which have given rise to the problem, there will be a compounded problem to be faced in the FY 1985 appropriations bill.

It is not uncommon for estimates of expenditures and actual program expenditures to differ from year to year. That is why Congress permits funds to be carried forward from one year to the next, if the entire appropriation is not needed, and why the Department is permitted to draw funds from a subsequent year appropriation if additional funds are needed. What has surprised me this year is not the fact that a supplemental is necessary, but that the Department only recently notified you of the situation and has not taken steps to either request a supplemental appropriation or provided schools with a payment schedule utilizing the statutory reduction provisions which would keep program expenditures in line with the actual appropriation.

If a Pell Grant supplemental appropriation is not made available for FY 1984 and the reduction language not utilized, the FY 1985 appropriation will need to be increased by at least the $363 million shortfall, in order to provide the anticipated level of services in the 1985-86 school year.

Thank you for your consideration of my recommendation, which is shared by many of my colleagues on the Subcommittee. I apologize for the lateness of this letter, but I trust you will understand the urgency of this matter and the need to act now. I am taking the liberty of sharing this letter with our colleagues on your subcommittee.

Cordially,

Paul Simon
Chairman

PS/wbq
cc: Subcommittee Members

[Letter from E. Thomas Coleman follows:]

E. THOMAS COLEMAN
6TH DISTRICT, MISSOURI

COMMITTEES
AGRICULTURE
SUBCOMMITTEES
CONSERVATION, CREDIT AND RURAL DEVELOPMENT, RANKING
DOMESTIC MARKETING, CONSUMER RELATIONS, AND NUTRITION

EDUCATION AND LABOR
SUBCOMMITTEES
POSTSECONDARY EDUCATION, RANKING
SELECT EDUCATION
HUMAN RESOURCES
EMPLOYMENT OPPORTUNITIES

Congress of the United States
House of Representatives
Washington, D.C. 20515

WASHINGTON OFFICE
2300 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-7041

DISTRICT OFFICES
2301 MCGEE STREET, 2ND FLOOR
NORTH KANSAS CITY, MISSOURI 64116
(816) 474-9030

POST OFFICE AND FEDERAL BUILDING
8TH AND EDMOND
ST. JOSEPH, MISSOURI 64501
(816) 364-3060

June 18, 1984

Honorable Silvio Conte
Ranking Republican Member
Committee on Appropriations
2300 Rayburn House Office Building

Dear Sil:

It has recently been brought to my attention that the Department of Education will experience a funding shortfall for the Pell Grant program for fiscal years 1983 and 1984. This letter is to urge you to support a supplemental appropriation for the program.

I understand that errors in Department of Education estimates for required Pell funding for both FY 1983 and 1984 resulted primarily from higher than anticipated participation in the program by independent students. As a result, the Congressional Budget Office estimates that a supplemental appropriation of $353 million is needed to cover the shortfall for both years.

Appropriations made for fiscal year 1983 were approximately $190 million below the required amount and, as you know, the Department borrowed from the fiscal year 1984 appropriation to cover the shortfall. In addition, the revised estimate applying to fiscal year 1984 funding suggests that at least $2.963 billion will be needed to maintain full funding.

Although the Administration has not yet requested a supplemental appropriation for the program, I believe inclusion of $353 million to cover the shortfalls for both FY 1983 and FY 1984 in the pending supplemental appropriations bill is in the best interests of all involved parties. I believe this supplemental will add much needed stability and predictability to the program and help families make their educational plans on a sound basis.

Thank you for your consideration of this important matter.

Sincerely,

E. THOMAS COLEMAN
Ranking Republican Member
Subcommittee on Postsecondary Education

Mr. HARRISON. For the purpose of analysis, I would also include a letter to Congressman Simon from the Congressional Budget Office setting forth their calculations on the amount of the shortfall. Without objection, that will be done.

[Letter to Chairman Paul Simon follows:]

CONGRESSIONAL BUDGET OFFICE
U.S. CONGRESS
WASHINGTON, D.C. 20515

Rudolph G. Penner
Director

The Honorable Paul Simon
Chairman
Subcommittee on Postsecondary Education
Committee on Education and Labor
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Thank you for your June 8 letter requesting information on the Pell Grant program. The enclosed response estimates the likely shortfall in Pell Grant funding for the 1983-84 school year and compares the Congressional Budget Office estimate to the Administration's figures. In addition, the attachment discusses reasons for this shortfall and reestimates Pell Grant costs for the 1984-85 school year.

If the CBO can help in any further way, please contact me or have your staff call Maureen McLaughlin at 6-2672.

With best wishes,

Sincerely,

Eric Hanushek
for Rudolph G. Penner

Attachment

cc: Honorable E. Thomas Coleman
Ranking Minority Member

40-571 O - 85 - 2

RESPONSE TO JUNE 8 LETTER FROM CONGRESSMAN SIMON

This attachment presents the most recent Congressional Budget Office estimates of the costs of the Pell Grant program in school years 1983-84 and 1984-85. The first section estimates the likely shortfall in funding for the 1983-84 school year, compares the CBO and Administration estimates, and discusses reasons for this shortfall. The second section reestimates Pell Grant costs for the school year 1984-85 based on changes that occurred in 1983-84.

The 1983-84 School Year

The Congressional Budget Office estimates that Pell Grants will cost $2,684 million during the 1983-84 school year (see Table 1).[1/] An estimated 2.7 million undergraduate students will receive awards averaging $1,000. The Administration, on the other hand, estimates Pell Grant costs of $2,801 million, or $117 million more than the CBO estimates. The Administration assumes that approximately 2.8 million students will receive awards averaging $990.

Thus, both the CBO and the Administration estimate that Pell Grant costs will be higher in the 1983-84 school year than the $2,494 million that

---

1. Although the 1983-84 school year is just ending, actual data on the number of Pell Grant recipients, average awards, and total costs are not yet available.

TABLE 1. THE CONGRESSIONAL BUDGET OFFICE AND ADMINISTRATION PELL GRANT ESTIMATES FOR THE SCHOOL YEAR 1983-84

	Total Cost[1/] (in millions of dollars)	Number of Recipients (in thousands)	Average Award (in dollars)
Congressional Budget Office Estimate	2,684	2,687	1,000
Administration Estimate	2,801	2,830	990

NOTE: Details may not multiply due to rounding.

1. Budget authority.

is now available ($2,419 million from the fiscal year 1983 appropriation and $75 million of unspent funds from fiscal year 1982.) The CBO estimates that an additional $190 million will be needed, whereas the Administration estimates a $307 million shortfall. To cover this expected shortfall, the Administration has borrowed $307 million from the fiscal year 1984 appropriation.

Current funding for Pell Grants is below what is necessary because initial funding for the 1983-84 school year was insufficient and because a larger number of students who are financially independent of their parents applied for grants this year than was expected. The additional applicants

increased the number of recipients, and thus increased federal costs. The CBO estimates that almost one-half of the shortfall is a result of insufficient initial funding and the other half is due to having more applicants than expected.

Current Education Department data indicate that approximately 4.9 million students applied for Pell Grants during the 1983-84 school year, about 200,000 more students than applied in 1982-83. In addition, the number and the proportion of independent students applying for aid rose between these years. Based on previous trends, the CBO had predicted that 4.8 million students would apply, with the proportion of independent students remaining the same as in 1982-83. The Administration, on the other hand, had predicted that the same number of students, 4.7 million, would apply in 1983-84 as in 1982-83. (The Administration's estimate of independent students is not available.)

Because detailed data on applicants are not currently available, we do not know why more students applied than was expected. One possible reason is that the application forms were available earlier than in the previous year, thus encouraging more students to apply. The high rate of unemployment at the beginning of the school year could have caused more students to enroll in school and to apply for aid. In addition, more students could have

declared themselves independent of their parents than in other years, thus increasing the number of independent students applying for aid.

The 1984-85 School Year

The CBO predicts that the number of applicants will grow slightly in the 1984-85 school year, and then level off, with the 1983-84 proportion of independent students continuing. Because almost one-half of all undergraduate students now apply for Pell Grants, because enrollment is not expected to increase, and because the reasons discussed above do not suggest that this year's growth rate in applicants will continue, the CBO is predicting that 5 million students will apply for Pell Grants in 1984-85.

The CBO estimates that Pell Grants will cost $2,963 million in the 1984-85 school year, or $163 million more than the fiscal year 1984 appropriation. In total, the CBO estimates that the expected funding shortfall for Pell Grants for the 1983-84 and 1984-85 school years will equal $353 million.

At this time, the Administration does not have a revised estimate for the 1984-85 school year.

Mr. HARRISON. I look forward to hearing from witnesses this morning as to the magnitude of the problem, as to the reasons for the shortfall, and whether these reasons will persist into the upcoming academic year and result in another shortage of funds.

I am certain that our three witnesses will address these questions thoroughly. Further, I am certain that the Department of Education will continue to review the data on the Pell recipients to determine how they differ from what was originally projected.

Although I am extremely interested in the reasons for the shortfall and a projection as to whether the factors will continue, I am most interested in determining what will be done to solve the problem.

There seem to be three options available: First, to seek a supplemental appropriation; second, to publish a reduced payment schedule; and, third, to seek an increased appropriation for fiscal year 1985 to cover the funds that have been drawn down from the fiscal year 1984 appropriation.

Primarily, I am concerned that one of those three solutions will not be acted upon and there will be a reduction of funds available for fiscal year 1985 by the amount of the shortfall.

I am glad you are all here; thank you for coming. We will recognize first the Honorable Edward Elmendorf, the Assistant Secretary for Education.

It's good to have you here again, Mr. Secretary.

STATEMENT OF HON. EDWARD M. ELMENDORF, ASSISTANT SECRETARY FOR POSTSECONDARY EDUCATION, DEPARTMENT OF EDUCATION, ACCOMPANIED BY SALLY H. CHRISTENSEN, DIRECTOR, BUDGET OFFICE, AND SALLY KIRKGASLER, DIRECTOR, OFFICE OF POLICY DEVELOPMENT

Mr. ELMENDORF. Thank you, Mr. Chairman.

With me this morning I have, on my left, Ms. Sally Kirkgasler, who is the Director of the Policy Development Office in the Office of Postsecondary Education; and the Director of Budget Services for the Department of Education, Ms. Sally Christensen—both dressed in white today.

Mr. HARRISON. It's appropriate for the weather.

Mr. ELMENDORF. The Education Amendments of 1972, which created the Pell Grant Program for needy students, recognized that this quasi-entitlement program for needy and low-income students needed some budget flexibility to compensate for the inexact science of trying to calculate the future based on extrapolations of the past.

The mechanism which Congress chose to use to protect that inexact calculation was the drawdown authority. That authority has been exercised this year, and Congress, as you indicate in your opening statement, was notified of this on May 28.

I should also add for the record, since notification is one of the questions that Congressman Simon raised in his letter to me, that notification was given to the Appropriations Committee in my testimony before that committee on March 28. For the record, that statement is on page 11 of the questions and answers that we provided at that time.

The amount we stated was required was $307 million. That estimate was based on information we had at that time. I'm pleased to say that after careful analysis of all of the progress reports, that number is sustained in the report we delivered to the Budget Office in May.

I would like to insert my testimony for the record and then just attempt to summarize it, if that is agreeable.

Mr. HARRISON. Without objection, your statement will be entered in the record. Please proceed as you think best.

Mr. ELMENDORF. Thank you.

The way I would like to approach this is, I'll try to give you an overview of the program, how it works, be more specific about exactly what the problem is, and then look at what we think some of the factors are relative to the increase and why it occurred.

The program requires constant monitoring, it is heavily influenced by outside factors over which the Department has no control. For example, the number of applicants, whether they are dependent students or independent students, whether they are part time or full time, whether they actually show up after they have been determined to be eligible, all of these are factors that we have no control over but in fact do influence the number of dollars which eventually are allocated.

While all these variables exist in this very complex program, we are nevertheless attempting in every way possible to monitor the flow of funds.

The way we do this primarily is through progress reports. These reports are submitted by the institutions to the Department three times a year—once in October, once in the middle of March, and once in July.

It is through these sources of information that we are able to obtain the most accurate information on where the program is in terms of institutional drawdown of funds.

The funding analysis that we went through after the reports were received in March revealed two factors: First, that there is a rather dramatic and unexpected increase in the number of students applying to the program; and, second, that there is an increase in the average award given those students.

This is extraordinary and unanticipated, based on all of the analysis that we have done in the program. I do have some charts, which I'll show later, that reveal this change.

The goal, of the administration is to assure that at this time there is no disruption of the student financial aid delivery system nor a disruption in terms of the commitments that institutions of higher education have already made to students expecting to attend after July 1, 1984.

We have used the congressionally determined authority to draw down from the appropriation for fiscal year 1984 the amount of money that we need in 1983.

To be more specific, Mr. Chairman, for fiscal year 1983, $2.419 billion was appropriated; remaining from fiscal year 1982 was about $75 million in funds not used; added to the $2.419 that gives us spending availability of about $2.494—almost $2.5 billion in fiscal year 1983 for 2.6 million recipients, with an average grant expected of about $937 and a maximum grant of $1,800.

Based on the new information we have from the analysis of the progress reports received in March, we see that the demand by students for this program will be approximately $2.8 billion, or $307 million more than the funding available, for about 2.8 million recipients, or an increase of about 200,000 students with an average grant of $990, rather than $937, or approximately $53 per recipient greater than was anticipated.

The estimate over the amount projected, as I said before, comes from the number of students and the increase in the average award. Neither the Department of Education nor the Congressional Budget Office, in terms of its projections, was able to capture that change.

The question was asked, Why wasn't the Congress notified sooner? The response to that is, again, to understand the progress reports, one must know that we don't begin to get reliable data on the program until about the middle of March. It takes at least 1 to 2 months to analyze that, to determine whether the data we are getting is a good indicator of the future or not.

I believe if we had made this projection in November, we would have projected anywhere from a surplus of $22 million to a deficit of $81 million. If we had done it in January, it might have been a couple of hundred million.

In March it was estimated to be $307 million, but that's based on about 2 million records. That is a pretty accurate estimate, and it has been looked at from the point of view of now through the end of this award period.

We expect most of the end of year reports to be in by the middle of the summer, and it would be at that time that we would have a more precise estimate of the exact number of dollars and students in the program.

As I said before, I brought this to the attention of the Appropriations Committee back in March. I'm pleased that you invited us here today to explain some of the details of the program, because I think the program could stand some further analysis and better understanding of just what is happening.

It is very difficult to determine precisely what is happening, because all of the indicators used in estimating would seem to indicate not much of a change in the program for this year.

Just to give you an idea, the chart in front of me shows the last 3 years of the program in terms of applications. There has been no more than a 2-percent increase, at most. The increase in the slope of the line to 1983 shows that we are talking about an 8-percent increase in applications.

At the same time, I have taken a look at the enrollments in higher education, and if you look at enrollments in higher education, you will see that there has also not been a dramatic increase, yet we are talking about almost a 3-percent change for Pell grant applicants as a part of total enrollments in higher education, another trend that neither CBO nor the Department of Education expected based on historical trends.

The model that we used to estimate has in it factors such as the higher education enrollment and the historical trends in the program relative to numbers of applicants, eligibles, and no-shows, I should tell you in terms of no-shows—that's the difference between

those who apply and are granted eligibility and those who eventually show up on a campus with a valid SAR which they take and get payment on—that the trend has been for there to be an increasing number of no-shows, with the exception of this year. It would appear that more students who are eligible and submit the application are in fact bringing it to the campus and receiving payment. That's a reversal of a trend we have been experiencing.

What we have learned from the applicant data is this. Even though it is incomplete at this time and we can't be definitive, there are some trends that have developed.

For example, in the number of eligible aid applicants, there is an increase of about 137,000 students over last year. We have found in looking at the increase of 137,000 that 93 percent, or 120,000 of those, are in the category we call independent students—that is, not considered to be dependent on parents' income for support. Only 7 percent of the total increase is in the dependent student category.

In terms of age, there was an increase in the age group 23 to 27 of 48,000 applicants. More surprising is an increase in applicants over age 27 of 85,000. In short, 62 percent of the total increase, is composed of students who are over 27.

If you add both together, students over age 23 constitute 87 percent of the increase.

In terms of income, we find that those increases come primarily from family incomes of less than $7,500. That would not be surprising, given the fact that the income from the independent student—adjusted gross income runs around $4,000.

But the 104,000 who come from below the $7,500 income category is indicative of the fact that lower income students seem to be taking advantage of the Pell Grant Program in higher education.

Another factor is the nontaxable income. That factor in the report includes unemployment, welfare, and other Government benefits. We found that there was an increase of about 66,000 students, or about 48 percent of the increase, came from students who showed unemployment, welfare, or other Government benefits.

In summary, we find that the profile of the student coming to the program this year is a nontraditional, independent student.

This shift corresponds to some national trends in higher education, although it is more dramatically emphasized here than in any other analysis we have seen from NCES or any of the other reports.

We don't know at this time whether we are talking about a 1-year anomaly or whether this is an experience that will be repeated in future years. We do know, in updating our model for next year and making a calculation for the fiscal year 1986 budget, that all of the experience from this year will be put into that model before new numbers are developed.

The final point I would make in my testimony, Mr. Chairman, is that we feel there is a great deal more analysis needed of this change in the program characteristics and the corresponding budget increases.

We also have a quality control study of the program which was done by an outside contractor. It's nearly ready to be released. It's the third in a series of reports which show that we have in fact

reduced the error rate, but we are still talking about a significant dollar error in the program.

We think there are some interim measures that can be taken to reduce the costs. We think that we need more information on the program before we can go forward and request any option such as a supplemental or increased regulatory authority to verify those applicants we see are making significant errors in the program.

We also have reauthorization coming up and we could consider a number of options in developing the budget for fiscal year 1986.

To repeat, we are not at this point prepared to request a supplemental nor do we expect to invoke the authority we have to reduce the grants for those students who are planning to attend institutions of higher education this fall.

That concludes my testimony, Mr. Chairman, and we would be happy to answer any questions you might have.

[Prepared statement of Edward M. Elmendorf follows:]

PREPARED STATEMENT OF EDWARD M. ELMENDORF, ASSISTANT SECRETARY, POSTSECONDARY EDUCATION, DEPARTMENT OF EDUCATION

Mr. Chairman and Members of the Subcommittee:

I am pleased to have this opportunity to be here today to discuss with you the Pell Grant program's funding requirements for academic year 1983-84.

The Department has been closely monitoring the flow of Pell Grant program funds during this academic year. Our ability to accurately project program expenditures is influenced heavily by several external factors beyond the Department's control. For example, because the program continuously receives updated information concerning student applicants and institutional expenditures, projections of ultimate program participaton rates and costs remain relatively unstable until well into the processing year. The funding process is also extremely complex with constant analysis required to maintain adequate funding availability at each of the more than 5,000 currently participating institutions.

After careful review of our most recent operational analysis report and other program statistics, we determined that the amounts appropriated for fiscal year 1983 and carried forward from the previous fiscal year were insufficient to meet Pell Grant program activity and other administrative expenses during the 1983-84 academic year. We have been confronted with an

extraordinary and unanticipated increase in both student applicants and those eligible student applicants. In addition, these eligible applicants have qualified for higher average awards. The combination of these two factors contributed to the increase in program expenditures by 12 percent above what was projected.

To meet program obligations and avoid an interruption in processing institutional requests for additional funds, the Department exercised its authority to draw down $307 million from the 1984 Pell Grant appropriation, thus increasing funds available for the 1983-84 academic year to $2.8 billion.

Let me now be a little more specific in addressing the questions you raised in your letter of invitation.

1983-84 Program Estimates

The amount initially available for academic year 1983-84 was $2.494 billion consisting of a fiscal year 1983 appropriation of $2.419 billion and $75 million in carry over funds from fiscal year 1982. Our estimate for particiption in the President's budget was 2.54 million. More recently our estimate was raised to approximately 2.66 million recipients with average awards of $937. As you know, the maximum grant a student can receive during the 1983-84 academic year is $1,800.

We recently notified the Congress that the Department borrowed $307 million from the 1984 appropriation to supplement the amount initially available to meet Pell Grant payments and other administrative expenses. This additional funding will provide an operating level of $2.8 billion with 2.8 million recipients and an average award of $990.

The primary reasons for the increase in estimated program expenditures over our original projections are a significant increase in eligible student applicants with more financial need. This increase was not anticipated by the Department when initial budget estimates were developed. This phenomenon caught everyone by surprise.

With respect to your question in the letter of invitation regarding why the existing systems did not provide an earlier warning of the increase in student applicants and the average award, I would like to mention, as I did earlier in my testimony, that our ability to project program costs are limited by the fact that our projections are based on historical experience.

Once the actual processing cycle begins, monitoring Pell Grant expenditures becomes an on-going process. The program continuously receives information from institutions regarding student participation.

Given the nature of the program, the average award and number of recipients remain relatively unstable until the bulk of institutional activity reports are received and processed by the Department. This uncertainty makes the process extremely complex. It is necessary to periodically review and evaluate all disbursing institutions' activities in order to revise estimates of adequate funding levels and to ascertain legitimate financial need.

Because of the complexity involved in monitoring program expenditures, the Department was not aware of the magnitude of the increase in eligible applicants until early spring of this year. At that time, the Department had received approximately 2.4 million reports submitted by institutions indicating students with increased financial need. Based on the data we had available and on assumptions regarding the average award and total estimated recipients, we estimated that an operating level of $2.8 billion was necessary to continue processing institutional requests for Pell Grant funds.

Characteristics of Program Applicants

We are interested, as you are, in understanding this major fluctuation. We have been reviewing program data as it becomes available to us and, while we cannot be definitive because the data are incomplete, some interesting trends appear to be emerging. In reviewing comparable data from the 1982-83 and 1983-84 award years, we have observed the following trends:

- The number of eligible aid applicants rose a total of approximately 137,000 between the 1982-83 and 1983-84 award years. Over the same period, the number of eligible independent applicants increased by more than 127,000. This increase in eligible independent applicants accounts for approximately 93 percent of the total increase between the two years. During this same period, the number of eligible dependent applicants rose by more than 9,800. This increase accounts for approximately 7 percent of the total increase between the two years;

- The number of eligible applicants between the ages of 23 and 27 increased by 48,000, while the number of eligible applicants over the age of 27 increased by 85,000. These increases account for approximately 35 percent and 62 percent of the total increase respectively;

- The number of eligible applicants from families with adjusted gross family incomes of less than $7,500 increased by more than 104,000 between the two year period and which represents approximately 76 percent of the total increase;

- The number of applicants reporting "other non-taxable income" (which includes unemployment, welfare, and other Government benefits) rose by more than $5,000 which accounts for approximately 48 percent of the total increase experienced in the program.

These statistics seem to indicate that the increase in eligible Pell Grant applicants are older independent students with low family incomes. This shift corresponds to national trends which suggest that the slight increase in postsecondary enrollment overall is a result of older students seeking to improve their skills. Contact with financial aid administrators tends to support this theory.

1984 Program Estimates

The amount remaining to make Pell Grant awards in academic year 1984-85 is estimated to be $2.493 billion after deducting $307 million to supplement 1983-84 Pell Grant activities. The actual amount available will depend on the actual 1983-84 shortfall to be determined in late summer when institutional funding requests and expenditures are reconciled. We do not now know whether the 1983-84 experience of increased recipients with greater financial need will be duplicated in academic year 1984-85 or whether this was a one year anomaly.

We share your interest in wanting to understand the factors behind the unanticipated increase in Pell Grant expenditures. Our quality control studies continue to document a large -- though declining -- error rate. In 1982-1983, the rate was 25 percent. While we are making improvements in all these areas much still needs to be done. We will continue to monitor closely the changes in the Pell Grant program's costs and will keep you informed of any new developments. We plan to make recommendations to you in the coming year that will enable to Department to make progress on these problems.

Mr. Chairman, I hope this testimony has been responsive to the concerns of the Subcommittee. I will be pleased to answer any questions the Subcommittee members may have.

Mr. HARRISON. Thank you very much, Assistant Secretary.

I think that some of the things you have said have answered a few of the questions that I had in mind.

I guess I would begin with the observation that, as a personal comment, I am happy that you are not planning to reduce the grant schedule, which I think would probably work some hardship on individual students.

I guess the major concern that the subcommittee has this morning is whether or not this is, as you called it, a 1-year anomaly, or whether we are dealing with an ongoing problem here.

You have noted that a quality control study is in process, and I assume that you will share that with us as soon as it is available.

Mr. ELMENDORF. Yes; we will.

Mr. HARRISON. At this point, do you have any judgment you can share with us as to whether or not this shortfall condition will recur next year?

Mr. ELMENDORF. Let me say that I don't think there is one single approach to addressing the problem. There is a budgetary approach, which I understand we are here today to provide information about, but there are some longer term solutions, and they can begin as early as tomorrow.

For example, the quality control study has brought to our attention erroneous information students have submitted on adjusted gross income. This can be addressed by increasing verification efforts.

By that I mean institutions are in possession of IRS 1040 forms which they can use to compare applicant information on the Pell form against information submitted to IRS to show that the information is within tolerance. That verification is now being done at the rate of 1,200,000 of these a year.

We found in a study not yet released that there is still a significant error in that one factor. In fact, it is the most significant factor, causing some $80 million in error.

We find that the reason for that is attributed to the independent student. Dependency status, in fact, is the one factor that we feel we need to give most attention to in terms of any new verification process that we use in the future.

That alone could save some significant amounts of money, if we were to address it, as well as a reconsideration of the independent student definition, which right now is essentially frozen under the law, in terms of its definition, for at least 1 more year.

Those factors are things we can look at that would have a softening effect on the program.

Mr. HARRISON. You are not suggesting then that you have found any serious degree of deliberate misstatements on these applications?

Mr. ELMENDORF. We have no way of knowing whether they are deliberate or not. We do know that they are erroneous, and when the IRS forms are compared with the actual information, we still find a 25-percent error rate in the program.

We think a more targeted type of verification done both by the institution and by the processor who processes the applications could contribute to an even further reduction in error.

The total error in the program—net error, is still over $200 million. That is a factor that we revealed about 2 years ago and have increased the verification to try to ameliorate that situation.

Mr. HARRISON. You spoke a couple of minutes ago about a tolerance level. To what extent does the actual error rate differ from what you would consider a tolerable level?

Mr. ELMENDORF. Well, I don't think anyone has concluded what a tolerable level is. If you were to look at some of the other programs like welfare and social services, they are talking 2 or 3 percent. That is a much more controlled program, and we don't really have a comparable model to the Pell grant, a 25-percent error rate however is not tolerable, and I think we can reduce that even further.

The error rate was, I believe, over 40 percent in the first quality control study.

Institutions, by the way, have done a commendable job in reducing error rate, so have students, but we think there is a way that we can reduce it even further, and we are working with the community on that.

Mr. HARRISON. I guess my last question before recognizing—I feel somewhat, strangely enough, in the majority of the House and the minority of the subcommittee this morning.

Mr. GUNDERSON. Can we have a vote, Mr. Chairman?

Mr. HARRISON. Thankfully not.

Before I start recognizing my colleagues, I guess my last question to you, Doctor, is this: Do you have any idea as to when there will be some firmer judgment as to whether or not this is an anomaly or a recurrent problem?

Mr. ELMENDORF. We will know by the time that we reconcile all of the institutional accounts, occurring sometime in the late summer and early fall, whether or not the numbers that we have

are, in fact, accurate for this year and whether there is any turnback of funds from institutions that could offset the $307 million.

When I first came to the Department, these accounts unfortunately hadn't been reconciled for 7 years. We have set about doing that and found $67 million to be reconciled over a 7-year period. We have improved that to a point now where we can reconcile 2 months after we close the books on an award year. That would essentially mean that averaging out those 7 years, we couldn't expect this year to find more than $10 or $12 million to offset the $307 million that we expect to be the cost of the program for this current year.

Mr. HARRISON. So you are saying that you might have some further information to share with us by the end of the summer or the early part of the fall?

Mr. ELMENDORF. Yes; I think we can share with you what we find when we reconcile the Pell grant fund for 1983–84.

Mr. HARRISON. Am I in a position to tell my good friend, Mr. Simon, that we will be able to talk about that somewhere around September 1?

Mr. ELMENDORF. I believe that——

Mr. HARRISON. I'm not trying to pin you down to a certain day, but I'd like to get an idea.

Mr. ELMENDORF. Yes; I think that's within striking range.

Mr. HARRISON. And at that point, do you think the Department would have some idea as to what you would recommend as a solution?

Mr. ELMENDORF. We might have a more firm idea at that time, and we will certainly have a leg up on the quality control study and some of the regulatory processes that we are thinking of.

Mr. HARRISON. Why don't I defer until later. Mr. Coleman.

Mr. COLEMAN. I notice that the CBO has estimates of about $117 million less of a shortfall than you do. I suppose you can reconcile those, or do you feel that yours are more accurate as we look at this thing?

Mr. ELMENDORF. I think CBO is expecting there to be a much greater turnback of funds during the reconciliation process than we anticipate.

I believe their total is around the same, but they are believing that we will get more funds back from institutions when we reconcile accounts, and I don't have historical data that would support that.

Mr. COLEMAN. Let's play "what if."

What if, for example, a school which has a nontraditional trimester-based year—let's say they have distributed two out of three of their Pell grant funds already, and come, let's say, July or maybe later on, depending on what realistically happens, but for hypothetical purposes let's say July 1 they distribute the Pell grant to the students for the third and final go-around. Then after that, let's say in mid-July, the Department comes up with a ratable reduction schedule.

How would you anticipate that institution handling, or being reimbursed for that last Pell grant distribution? They made it before you announced and before the ratable reduction went into effect. How would a school do that?

Mr. ELMENDORF. You are speaking, of course, of next year, not this year, because——

Mr. COLEMAN. Well, no. I'm actually talking about this year.

Mr. ELMENDORF. OK. Well, this year, we envision no change in the program. There will be no reduction in any awards. With respect to the year beginning on July 1, 1984, which is the year against which we have borrowed funds there will be no ratable reduction in the large commitments that are made usually in the first quarter for proprietary institutions or the first semester for traditional institutions.

I hope subsequently we will have more information on the actual program costs and further information on Congress' progress on the budget.

I don't envision at this time the idea of reduction. It is a very disruptive process in the student aid delivery system. It doesn't help the student, the institution, nor does it help the Department in terms of what we have to do.

I think there are other options that we should be looking at in addition to the congressional ones.

Mr. COLEMAN. I'm not trying to suggest that you should pursue this avenue, but I was trying to determine under a hypothetical situation what would happen to that institution.

Could you—I'm not suggesting that you are asking for this or that you might ask for this, but for purposes of guidance in the future and for us to consider "what if's," what would happen to such an institution if they disbursed that money and then the ratable reductions were announced after the fact? How would they be reimbursed? Would they be reimbursed on the full amount or on the reduced amount?

Mr. ELMENDORF. At this point, I don't know why a reduction would affect funds already disbursed.

What, in fact, it would do—it has been used before—it would announce well ahead of time that the disbursement or any further disbursement of funds would be reduced by the amount called for.

In ratable reduction, as you know, there is a formula that is quite protective of those who have EI's—or eligibility indexes—of zero, meaning they are usually the poorest students in the program. So they are essentially held harmless from any first ratable reduction step. Only those who come from higher income families would be affected by the reduction should it be enacted.

There are other options, too, relative to the size of the maximum grant. As you know, the law next year calls for a maximum grant of $1,900. We are dealing now with an $1,800 maximum grant.

Mr. COLEMAN. I guess the question was not whether or not the student would be affected as much as that institution, if they spent money that they are now not going to receive.

In other words, you are suggesting that any ratable reduction would be prospective in nature and not retroactive to a previous disbursement day?

Mr. ELMENDORF. That's the way it is supposed to work.

Mr. HARRISON. Mr. Jeffords.

Mr. JEFFORDS. Thank you.

I would like to pursue some of the "what if" questions and a little bit more information about the situation in the event that there is not a forthcoming supplemental appropriation.

It is my understanding that what happens is that you have a pro rata reduction and the less than full award. I wondered, in view of the present shortfall, what that would mean if there was no forthcoming supplemental appropriation. What does that mean to the individual recipients? How much would they be reduced? How many would be dropped off that would otherwise have a small award?

Mr. ELMENDORF. Let me try to have Ms. Christensen answer that, Mr. Jeffords, from the point of view of the budget and the authority that is in the budget drawing down funds.

Ms. CHRISTENSEN. Mr. Jeffords, as you know, we are not requesting a supplemental at this time, because we don't have enough data, as Dr. Elmendorf has indicated to you.

As you know, we have authority each year in our appropriations language to enable us to borrow money from the next year's appropriation, so that we don't see any need to do that now.

Now the awards for next year would be made sometime in July or in the summer of this year. But all of that money is not disbursed, but it would be made at the full amount that the institutions request and that the students need, and if, in fact, there is a shortfall, at that time we could—whenever it would become necessary, we could borrow.

We would have a 1985 appropriation or a continuing resolution which would contain that same authority. We could borrow from that and in the meantime then request a supplemental in the 1986 President's budget for 1985. But that would be in plenty of time to take care of it, because we have this borrowing authority each year.

As Dr. Elmendorf indicated, there would be no need to reduce the maximum award or to reduce the grants made.

Mr. JEFFORDS. Well, either I understand what might happen or perhaps there are no "what if's," and we shouldn't be here. But I'm confused. It seems to me, at some point you have to have some money appropriated. My question is, Suppose you don't have the money appropriated? Then what happens?

Ms. CHRISTENSEN. My point is that we don't know at this stage whether——

Mr. JEFFORDS. I know you don't know.

Ms. CHRISTENSEN [continuing]. Whether, in fact, we will need more money or even what that amount might be. That's why we are saying that at this point in time we're not prepared to say that we need a supplemental or that we need a supplemental for so much money. We have enough borrowing authority each year in our Appropriations Act to take care of this problem.

Mr. JEFFORDS. Well, so I understand you clearly, right now you are telling me there will be no ratable reduction for 1984–85?

Ms. CHRISTENSEN. Not that we can foresee, no. There is no reason——

Mr. JEFFORDS. Well, can anybody foresee it?

Suppose the worst scenario that we have heard this morning occurred and there is no supplemental appropriation from Congress. There would be no ratable reduction?

Ms. CHRISTENSEN. It would depend on what the estimates are—the estimates that we get from the institutions for the next academic year.

But, as I say, if it happened that we did not have enough money, we still have the borrowing authority in the 1985 Appropriations Act or a continuing resolution which would contain that same authority to do the same thing that was done this year.

Now if that trend continues, obviously, at some point in time, we would increase our 1986 request or request a supplemental for 1985.

Mr. JEFFORDS. Then why are we here this morning? Could you please refresh me?

Ms. CHRISTENSEN. I think because there has been some misunderstanding about this.

We sent up a letter from the Secretary, as Dr. Elmendorf indicated, to the Appropriations Committees, merely informing them that we were utilizing this borrowing authority that they give us every year. We told them that we would keep them informed.

We were not requesting a supplemental. We said there was no problem; it was merely an informational kind of thing because we were using the borrowing authority that they give us every year.

Mr. JEFFORDS. Well, my understanding of that borrowing authority—I could be wrong—is that it is to try and prevent a problem because this is somewhat of an entitlement program, but that at some point in time that borrowing has to be repaid, and it just doesn't become part of the general debt to the country, does it? I mean, you go on——

Ms. CHRISTENSEN. That's true. That's true, but what I'm saying is that at this point in time we don't know the extent of the problem. It could be that we don't have a problem, depending on what happens next year and what the institutions request.

If the trend continues, we obviously will, but the timing of the supplemental, in fact, is not a problem, because we could use the borrowing authority and then request a supplemental later if that were needed.

We just don't have enough information at this point to request any supplemental.

Mr. HARRISON. Mr. Gunderson.

Mr. GUNDERSON. Thank you, Mr. Chairman.

Can we assume then that there will not be a request for a supplemental in this calendar year?

Mr. ELMENDORF. I don't expect that we have enough information to make that request at this time, and I also expect that the number you have before you will be fairly accurate at the end of this summer, but I wouldn't want to come before you and request a supplemental where the number could change one way or the other.

CBO has estimated it will change downward by $100 million. I would like one of us to be correct at the end of this summer before we come up here and ask you for more money than is needed or ask you for a supplemental at all when I think there are some

other options in terms of reauthorization, budget, verification, and other ways in which to deal with more demand for the program than is expected. Adusting the maximum grant would be an example. A change in the maximum grant of $100 is equivalent to $148 million in the program.

One small change like that could more than take care of half of the program overrun. But that isn't something we are recommending. It is a consideration and responds to the question that Mr. Jeffords was asking in terms of how you can manipulate parts of the program to bring it back down within cost without necessarily going for a supplemental increase.

But we don't want to disrupt the flow of funds to students for next year, and that's why we have unequivocably denied any suggestion that we go through a linear reduction or first-step reduction for students before disbursements are issued in September.

Mr. GUNDERSON. We can confidently tell our schools and our students that there will be no major change in the eligibility requirements, or the distribution, or the amount, or any kind of pro rata reductions during the 1984–85 school academic year?

Mr. ELMENDORF. What you can tell them is that all the things that control the disbursement of funds and the eligibility are pretty much published right now. We have published a contribution schedule, we have published the payment schedule, and we are stating now that linear reduction is not an option for us for that first disbursement.

Now I wouldn't want to rule out the second disbursement, but I can honestly say——

Mr. GUNDERSON. When does the second disbursement occur?

Mr. ELMENDORF. Generally it is in February—January or February. But I'm not going to scare you by saying that's something——

Mr. GUNDERSON. You already have.

Mr. ELMENDORF [continuing]. We have already decided. It's just one of those options.

I think there are many other options more desirable than that, but it is an option, and I think it's fair to tell you it is an option.

Ms. CHRISTENSEN. But I would add, Mr. Gunderson, that this is why the Appropriations Committees give us this authority in our Appropriations Act every year to cover any situation that might come up like this in the interim until we know what the situation is, whether we need a supplemental, and what action needs to be taken later.

Mr. GUNDERSON. But I think you would have to agree that there is a great deal of uncertainty that we are putting our schools and students under if we are telling them that there is likely going to be a shortfall in the amount of money available for Pell grants, that there will be no linear reductions in the first semester, but come next year we are not going to make any guarantees on second semester. That is really what you are saying, isn't it?

Mr. ELMENDORF. I'm saying I don't want to foreclose any options at this point.

I really don't feel it's responsible for me to say, "Go get a supplemental for $307 million," when it could be, according to CBO, a lot less, and according to us it could be that amount or even a little bit more.

I really think it would be premature to close off that option as well as some of the other options. I hold out more promise for some of the other options.

Ms. CHRISTENSEN. I would also repeat that the intent of the letter that we sent to the Appropriations Committees was merely to inform them that we had utilized this borrowing authority. It was not to provide any scare on the part of the schools or the students. It was merely to tell them that the situation was being taken care of by the authority that they gave us.

Mr. GUNDERSON. Sort of like calling somebody up and saying, "We don't want to scare you, but your house is on fire."

Ms. CHRISTENSEN. No; that's not—it's not the same.

Mr. GUNDERSON. OK.

Ms. CHRISTENSEN. It's not the same at all, really.

Mr. GUNDERSON. OK. Let's get into the timing. I'm a little confused as to why we haven't determined the shortfall until now. For all practical purposes, the 1983–84 academic year is over. We should have had some pretty good idea back in February, or at least March, as to a projected shortfall. What took so long?

Mr. ELMENDORF. I'm sorry you weren't in the room, but I covered that in detail in my statement.

Mr. GUNDERSON. I apologize.

Mr. ELMENDORF. It's essentially this, Mr. Gunderson. We have three ways to determine what it is institutions are demanding from us in the way of payment documents or SAR's. We get one in October, get one in the middle of March, and we get one in the middle of July.

The March 15 one is probably the most revealing, because it gives us the first payment and most of the second payment going to students.

I did notify the Appropriations Committee on March 28 of this problem, and I did use the figure $307 million in information provided to that committee.

We, however, wanted to verify that, and the analysis that we conducted after the March 15 progress report and before the May letter was to corroborate the $307 million and to give you the kind of information that we presented this morning about who it is out there making this demand on the program, when all signals from CBO and everyone else would indicate that no way could we have predicted this kind of a demand. An 8-percent increase in applicants is extraordinary when higher education enrollments have stabilized for the last 2 to 3 years and in fact are projected to go down.

Mr. GUNDERSON. You describe the fact that most of the increase occurs with the nontraditional student and their applications for assistance in this area.

What is there to suggest that these demands would go down rather than up?

Mr. ELMENDORF. Well, there is a great deal of evidence to suggest that the demand for dependent students, 17 to 22, is clearly meeting the projections that were made before 1990—that is, that they would taper off rather dramatically.

There is not a great deal of evidence on how stable the increase of those who come from the older group is.

The enrollment in the public 2-year community college is one signal that we can use as a measure, and the amount of funds they get from the Pell Program has increased.

So if there is an increase, it appears to be an increase in older students attending public community colleges, at least in terms of the way they draw down Pell grant funds.

But overall, I think the fact that we find nontaxable income—unemployment benefits and other Government benefits—are being reported more frequently among low-income students in the program is some indication that the economy and its fluctuations has a mirror effect in higher education in terms of older students enrolling.

As the economy improves and the number of unemployed continues to go down, enrollments may also decline. It may be that we have seen a 1-year blip in the——

Mr. GUNDERSON. But generally, you don't really believe that?

Mr. ELMENDORF. I have data to show that.

Mr. GUNDERSON. You really believe that the number of nontraditional students is going to be on the decrease?

Mr. ELMENDORF. No. I have data to show that the number of nontraditional students has fluctuated each year.

For example, the one factor we can't get much of a handle on, because nobody really reports that data very well, is the number of nontraditional students attending proprietary schools.

We looked at proprietary schools, and 1,265 proprietary schools had increases of over $10,000 in the amount of Pell grant funding that they got this year in comparison to last year.

That information is very hard to get, and it's very hard to get anybody to put that together and assess where it is that those students are coming from.

We need a lot more analysis to pinpoint that.

Mr. GUNDERSON. Finally, then, you would agree that all of the assumptions would suggest that the demand would be there in the next couple of years, as it has been in the 1983–84 year?

Mr. ELMENDORF. I would not go so far as to change the NCES projection through 1990 on total enrollments, which continues to show a decline, and in fact that is exactly what is happening.

The top line on this graph is the enrollment of traditional students

Mr. GUNDERSON. I'm asking nontraditional. That is where the increase in the Pell grant—

Mr. ELMENDORF. We are defining nontraditional differently. I am saying the traditional student is a student, older or younger, who attends any traditional 2-year, 4-year, public, private institution, except for proprietary schools, and that enrollment has stabilized and in fact decreased even with the enrollment increase in what we call independent students.

My sense is—and I don't have any ability to verify—that the older student is going to the proprietary sector in greater numbers than they appear to be coming into the traditional sector.

That is from the perspective of the demand they are placing on the Pell Grant Program, and keep in mind, the older student generally attends part time; they generally take less than six credits; and when they do, they are not eligible for Pell.

Mr. GUNDERSON. Thank you, Mr. Chairman.

Mr. HARRISON. Thank you.

I guess I have one more question, which gets back to Mr. Jeffords' question of, why are we here this morning?

I guess what I'm hearing and what I'd like to hear from you, Dr. Elmendorf, is that we are here this morning to get the assurance of the Department that you will come to us for a supplemental before you will reduce student grants, and I hope that you are in a position to give us that.

Mr. ELMENDORF. I wouldn't want to be the one to have to commit to that, because I think only the Secretary can make that decision in consultation with the Office of Management and Budget, but I can assure you that you can leave here feeling confident that there won't be a reduction in grants using the linear reduction formula for the September grant period.

Mr. HARRISON. Yes; we heard that. Unfortunately, we also heard you say that you don't want to make any commitments on the second disbursement.

I suppose the difficulty is that the letter to Mr. Natcher, which gave this information, really triggered a great deal of concern. This concern, I'm afraid, has now crystalized, because you are not in a position to say that you would be prepared to come for a supplemental before you would reduce student benefits in the second semester, and I think that is regrettable.

I mean the basic fact is that we have a $307 million deficit. This deficit is going to have to be made up somehow, and if I'm hearing you correctly, I'm afraid you are telling me that the Department might, under some circumstances, be prepared to take it out of the students by reducing the grant in the second semester rather than by coming back to Congress and asking for a supplemental. I hope you will tell me I'm wrong.

Mr. ELMENDORF. I would hope that you wouldn't make that a firm conclusion but, rather, keep the door open to other options which could be examined and would, in fact, not make that at all a reality. I'm saying we have time between now and the next budget cycle to accommodate that.

There have been carry-forward actions like this three times in the last 11 years, and I expect that we will probably deal with it in somewhat the same way.

Mr. HARRISON. I still wish you would tell me I'm wrong.

Thank you, Dr. Elmendorf. We appreciate your being here this morning. We thank your colleagues also, and unless you have a further statement to make, we will——

Mr. ELMENDORF. No, sir. I thank you for inviting me, and I hope we can share even more information when we finish the summer analysis.

Mr. HARRISON. Good.

We would welcome next Dr. Dallas Martin, the executive director of the National Association of Student Financial Aid Administrators.

By way of parenthetical comment, I might tell Dr. Martin that I was invited to address the Pennsylvania Association of Student Financial Aid Administrators several months ago at a beautiful resort, which unfortunately you can only reach by flying into one

of the most dangerous airports in the United States. But I survived the experience.

Doctor, we welcome you here this morning.

STATEMENT OF DALLAS MARTIN, EXECUTIVE DIRECTOR, NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

Mr. MARTIN. Thank you, Mr. Chairman.

I'm glad you made it safe and sound up to Pennsylvania. I hope that the meeting was worthwhile.

Let me, if I may, try to just summarize my comments today, Mr. Chairman, and ask that the full statement be entered into the record, and I would also note that 12 higher education associations have signed on to that testimony.

Mr. HARRISON. Without objection, your statement will be entered. We would appreciate a list of the additional sponsors. Please proceed however you think best.

Mr. MARTIN. If I may, I would like to deal really with the questions at hand.

I think Dr. Elmendorf has clearly outlined, as we understand it, what are the financial effects, and the estimates that he has given of the $307 million seem to be correct in terms of our understanding of the levels of the appropriations.

What seems to be somewhat confusing here today is why we experience the shortfall in terms of the changes that have occurred in the estimations. I'd like to comment on that.

When we first began to have some evidence that there was going to be a shortfall, it was originally pointed out that there have been some increases in the number of students that are enrolling in lower priced community colleges and vocational trade technical schools. I think Dr. Elmendorf collaborated that here today.

This is not too surprising to us. In fact, feedback that we have gotten from a number of our member institutions would suggest that in fact this is occurring on and that this is one contributing factor to the increase of the Pell grant dollars.

I think the point that we need to keep in mind here is something that we have observed before in terms of postsecondary educational enrollments; any time in this country in the last 50 years in which there has been an economic recession or high periods of unenrollment, we have seen larger numbers of people who are displaced, who are unemployed, who are trying to gain new job skills, go back and reenroll in postsecondary education. Clearly what we have experienced in this country for the last couple of years would point to that effect. The evidence that the Department is showing in the numbers of older students is clearly reflective that this is going on in this country.

In response to Mr. Gunderson a minute ago, I totally agree with him. I see no reason to believe that this is going to change any time through the early 1990's. All of the people that model the demographic data show that we are into that trend.

The traditional 18- to 22-year-old college population has somewhat stabilized, but what we are finding is a returning of the older person, an upgrading of their skills, of the displaced worker, and

others. There is no reason to believe that what we are finding here will not continue, probably for some years. This suggests that the models that are used and the information that goes into that model in the Department are going to have to be somewhat revised.

The second thing that Dr. Elmendorf pointed out, in addition to this increase in the number of students, was that they have also noted in this year's projections from the management data that the average award per student has increased by about $53 over what they had anticipated at the beginning of the year.

Again, this is easily accounted for if you look at the economic data. If you look at real income in this country, it has remained stable or flat for the last couple of years. It has not grown as fast as it has in previous years.

The Pell grant model has always been built on a set of assumptions that the income of many families would rise faster than the Consumer Price Index. The result of that increased income is an assumption that there would be certain numbers of students that would fall out of eligibility. Now that is not happening as rapidly as it has in previous years. That would account for probably a major reason why the average award has gone up, because incomes are not rising that much.

All of this seems to simply point out to me that we have some overall economic stagnation in this country, with actual reductions in personal income that many people have experienced. Therefore we have seen an increase in both participants in schools and also adjustments in terms of the eligibility as people's awards are calculated under the formula.

Now there are a couple of other factors that have also contributed to the data. In fairness I must say that the Department does attempt to look at their data from 1 year to the next in terms of what the trend lines or the effects are going to be.

I would simply remind the subcommittee, if we look back, that you would find, for example, that the 1983-84 Pell grant awards were delayed. We did not get the forms on the streets early enough that year; primarily because we were awaiting a final court decision over the student fee issue.

So the whole system has been somewhat disrupted in the past, and therefore that has a negative effect. Many students have been discouraged from going forward with their application.

We also had the system in 1982-83 in which there was a last minute change in terms of validation procedures that caused a great deal of confusion after the year was started. We know that was a discouraging factor to some students that simply chose to stop out or to drop out of school for that year.

Now this last year, we believe that many schools decided that they would go ahead with the 100-percent validation, and they took steps and implemented such procedures to help those students along the way.

So as a result of that, I think that the Department's data has shown that there are almost 200,000 more people in the program this year is understandable.

So the delivery system clearly impacts upon the number of people and the participation rates that we have had in the program.

I think the real issue here today—as it was stated at the outset of this hearing—is what are we going to do with this problem? To me, it seems that we clearly do have a problem. In fact, we began to note that this problem was evident somewhat earlier than even what Dr. Elmendorf alluded to.

While he did provide for the hearing record following his testimony on the 28th in the statement to Senator Natcher about the $307 million shortfall, we know a number of institutions that actually began to find difficulty in getting their authorization levels increased shortly after the first of the year.

Many institutions began to go to the Department and indicate to them that they were going to need more money than what was originally assumed, and many of these schools were held up on approvals of their authorization levels for 2 or 3 months.

Now that simply meant that those schools did not have authority to go ahead and pay students for second semester awards. Many of them, therefore, either had to loan students their own money, or to carry students on their books; in some cases, students simply were not paid.

We went along until really the latter part of March, well into April, before most of that was kind of cleared up and was carried forward. So we knew then there was something amiss.

Part of that blame was laid on the system itself in terms of some backlog with the changes and the estimations. I suspect that there was also some jockeying that was going on between the operational people and the budget and planning and policy people in terms of approval to go ahead and put forward the additional dollars to allow those authorization levels to be increased. Now that we are clear that there is at least a $307 million shortfall pending, it seems to me that our suspicions were correct all along.

In fairness, the situation has been corrected now, but it did create hardship on students that could have been avoided had this matter been dealt with more efficiently. I have some problem understanding why, after almost 10 years of experience in administering this program, that the float can't be managed. I do have problems with that. But that's not why we are here.

I think the real issue today is what are we going to do about this shortfall at this particular point?

As you have pointed out several times, it seems to me that the question is selecting between two or three alternatives. One choice is to go ahead at this point and seek a supplemental to take care of a problem that we know exists. Whether the problem exists of the magnitude of slightly under $300 million or slightly more than $300 million doesn't change the fact that we are into a problem that we have got a deficit. As Mr. Jeffords pointed out the deficit has to be reconciled, and so we should get on with that. If we are off a few million dollars one way or the other, I don't think that that's too much of a problem. It will be a bigger problem if we ignore it.

The authorizing committees have provided authority whereby you can introduce a linear reduction schedule. If that happens, then the 1984–85 payment schedule which was distributed to institutions in January of this year, and which schools have been using to announce awards—that schedule would be revised, and therefore

institutions would be required to pay students lesser amounts than what they have previously been notified of.

Mr. Coleman was asking a question about what would be the effects on a hypothetical about the reduction schedule. First of all, if the Department chose—and I understand that Dr. Elmendorf said that they didn't have plans of doing this, but if they chose to go forward—which they can do—and issued a revised payment schedule that was on the linear reduction, first of all, the only students that are protected under that are students with an eligibility index of 0 to 600. That is what the law requires. So those are only the students that are the very, very low income that are protected.

All other students then would have their awards adjusted based upon the amount of the shortfall. The degree of the reduction of those awards would depend upon how large the deficit is, and that could take many students' awards down by several hundred dollars depending on where they fell in that scheme.

Dr. Elmendorf said that they weren't going to do it for this fall. It might even be worse if it was done in the winter, because students then would be halfway through the year.

But the effect would be that the schools would have to call in or notify those students that there is a reduction, and they would have to also recalculate those awards, each of them, by going through on an individual basis and looking up on that payment schedule to find out what that new student's award was, adjust those aid packages.

If they were able at that point to have any additional moneys to try to make up for that shortfall, then they would try to repackage, but many of them, probably late in the year, would not have moneys because they would have already committed them.

So it would be very disruptive, not only to the institutions in terms of work but certainly to the students.

The major disruption to the Department would be simply running the model and putting up a new payment schedule and sending it out. The real harm would be done to the institutions and the students and there would be that effect. What would happen if schools had dispensed the money before? If a school, by chance, had disbursed money in July on the assumption that there was going to be a full award under the current payment schedule, and subsequently we had a reduced payment schedule for that award year, I'm assuming that that would constitute an overaward for that student. Therefore the adjustment would have to be made in the next payment period for that individual student, because that payment schedule stands for that full year. It doesn't talk about it for that point on. I mean that payment period is set in statute for that total operating year.

So under the hypothetical that you were raising, yes, I would say that that student would have to have his award adjusted by the institution by going back at that time and saying it was an overaward or by reducing it to make up in the next payment period. That's the way it has always worked, and I have no reason to believe it wouldn't work that way now under the statutes as well.

The other thing I found interesting in terms of the solution and what we are talking about is that Dr. Elmendorf seemed to think

that there may be some additional things with validation and all that would do that. I would just remind the committee that we have been into validation now for about 3 years. To date, we have not yet, in spite of all of the increased paperwork and all we have imposed on schools—we have saved some money, and we have certainly improved some of the reporting of the program, but we have not achieved at all the estimates that are made in their quality control studies, and part of that is because you just cannot be that precise. The program deals with too many variables, and we will never achieve that. I think we have made improvements in that area, and we certainly support the efforts on validation, but I would hope that we don't depend on that to solve a $300 million shortfall problem, because it simply will not happen.

I also found it interesting that Dr. Elmendorf alluded to the fact that one of the things would be to change the definition on independent students and simultaneously stated in the record that the 17- to 22-year-old population seems to be stable. Well, now, that is clearly the area where a change in definition would do it, but the increases that he was talking about came in the older students, the people that are beyond 22, beyond 27. Those are people that clearly, with no change in definition, are you going to make dependent, as opposed to independent. That's where the older adults are that are clearly independent. So we will see a continued increase, and a change in the definition at this point is not going to deal with that problem. This is a phenomenon of our society right now and a phenomenon of simply postsecondary enrollment rates. So I don't think we are going to have it.

I think the real issue is that we know we have got a problem; how do we deal with it?

We would strongly recommend, and are pleased to note, that Mr. Harrison, you have indicated this morning, and Mr. Coleman in your letters to the Appropriations Committee, that you have asked for a supplemental to Mr. Natcher's committee. It seems to me that that is the appropriate and prudent course of action. We strongly support that and have indicated to them that we feel that they should consider that as well, and I would hope that this subcommittee could support that recommendation and we could move on with it.

We may be slightly off on the total amount and may know a little bit more later, but the fact is, we know now that there is roughly a $300 million problem, and putting it off will only compound it for the future, and perhaps jeopardize future funding to force ratable reductions for students in subsequent award years.

I thank you very much for the opportunity to be here.

[Prepared statement of Dallas Martin follows:]

PREPARED STATEMENT OF DR. DALLAS MARTIN, EXECUTIVE DIRECTOR, NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS, ON BEHALF OF AMERICAN ASSOCIATION OF COMMUNITY AND JUNIOR COLLEGES, AMERICAN ASSOCIATION OF STATE COLLEGES AND UNIVERSITIES, AMERICAN COUNCIL ON EDUCATION, ASSOCIATION OF AMERICAN UNIVERSITIES, ASSOCIATION OF CATHOLIC COLLEGES AND UNIVERSITIES, ASSOCIATION OF JESUIT COLLEGES AND UNIVERSITIES, ASSOCIATION OF URBAN UNIVERSITIES, NATIONAL ASSOCIATION OF COLLEGE AND UNIVERSITY BUSINESS OFFICERS, NATIONAL ASSOCIATION FOR EQUAL OPPORTUNITY IN HIGHER EDUCATION, NATIONAL ASSOCIATION OF INDEPENDENT COLLEGES AND UNIVERSITIES, NATIONAL ASSOCIATION OF SCHOOLS AND COLLEGES OF THE UNITED METHODIST CHURCH, AND NATIONAL ASSOCIATION OF STATE UNIVERSITIES AND LAND-GRANT COLLEGES

Mr. Chairman, members of the Subcommittee, I appreciate the opportunity to appear before you today to discuss the concerns of the National Association of Student Financial Aid Administrators regarding the $307 million shortfall in anticipated Pell Grant expenditures for the 1983-84 academic year.

As we understand the issue, the Department of Education began the FY-83 with a Pell Grant appropriation of $2.419 billion and approximately $75 million in unspent FY-82 Pell Grant funds, for a total funding level of $2.494 billion.

Subsequently, the Education Department discovered that actual FY-83 expenditures to cover the 1983-84 academic year would exceed the $2.494 billion level by $175 to $200 million. This in turn, necessitated the need for the Education Department to borrow approximately $300 million from the FY-84 Pell Grant appropriation to cover the FY-83 expenditure shortfall. We assume that the Department's reason for drawing down $300 million when only $200 million will be needed, is to provide them with sufficient funds to cover any "float" that may occur to finance the difference between the funds the schools have estimated that will be needed for the year and their actual FY-83 expenditures. As such, we estimate that approximately $100 million of the $300 million drawn down will be available for FY-84 once all of the institutional accounts have been reconcilled for FY-83. Since final reconciliation of these accounts cannot occur until after the end of the academic year, i.e. June 30, 1984, we expect that total FY-83 expenditures will not be known until late summer or early fall.

Additionally, we now believe that the Department's original expenditure estimate for FY-84 is low. Based upon data obtained from the American Council

on Education, we feel that at least $2.9 billion will be needed to fully fund the Pell Grant program in the 1984-85 academic year, rather than the $2.8 billion appropriated. As such, it would appear that a supplemental appropriation of approximately $300 to $350 million will be needed to cover the FY-83 and FY-84 Pell Grant program costs. Otherwise, the FY-85 appropriation will have to be between $3.1 to $3.15 billion to cover the FY-83 and FY-84 shortfalls and to fund the FY-85 program at the same levels approved for FY-84.

One reason given by an Education Department official for the underestimates was that there has been a unanticipated increase in the number of independent Pell Grant recipients who enrolled in lower priced community colleges and vocational/trade schools during the past year. Whether or not this is true perhaps remains to be seen. However, feedback that we have received from some of our member institutions would suggest that this is one contributing factor, but not the only one. Generally, overall postsecondary educational enrollments have remained stable or increased slightly in the past two years, even though enrollment declines had been projected. The reason for such enrollments should not be too surprising if one stops to consider that historically when this nation has experienced periods of economic recession and high rates of unemployment, overall enrollments in postsecondary education have increased. This is simply due to the fact that displaced or unemployed workers during these times often elect to enroll in short term courses of study that will enable them to obtain job skills and knowledge to re-enter the workforce. Current data would seem to partially reinforce this factor and feed-back from some of our schools suggests, in fact, they have experienced some increase in the number of older independent students who are enrolling for one or two year programs. This seems to be particularly true in those areas of the country

where unemployment has been higher. However, a more common contributing factor to the underestimate seems to be the overall lack of growth in many families' real income. The Pell Grant estimation model has always assumed that as real income increases from one year to the next, a substantial number of prior year eligible students will fall out of eligibility in the next year simply due to inflation of income. In essence in the past, income grew faster than the C.P.I.. Given the overall economic stagnation we have had in this country for the past two years, and actual reductions in personal income that many families have experienced, increases in real income rates have remained far below those of previous years. Therefore, this overall minimal growth in family income, when coupled with increases in tuition and fee costs at most schools, has reduced the attrition normally experienced in the program and has increased the average award and program costs.

One additional factor that also needs to be remembered when analyzing the program participation rates is the overall performance of the program delivery system. Let me remind the Subcommittee that the 1983-84 Pell Grant student application forms were not approved by the Secretary of Education until November 5, 1982, nearly four months later than most years, thereby delaying the distribution of forms until late December. The primary reason for this delay was the pending court decision over the student fee issue. As such, this delay created a compression within the processing system which would have distorted the comparative data. Likewise, the 1982-83 award year was backlogged due to the late summer publication of the Department's Addendum to the Validation Handbook; the Department's decision to change the validation selection procedures after processing began; and the late publication of the final 1982-83 Pell Grant Payment Schedule. All of these events clearly

disrupted the normal Pell Grant delivery system and created a distortion in the 1982-83 performance data. These factors also seem to be reflective in the Department's own data and their figures which show that about 200,000 more students applied for Pell Grants in academic year 1983-84 than in the 1982-83 academic year. My reason for mentioning these events and the economic factors is simply to note that a projection model is only a management tool, and if judgements and adjustments are not made to take into account these extraneous factors, then the projections will be wrong.
Whether or not consideration of these and other factors were included in the Department's own estimation models can only be addressed by those who developed the projections.

While I am aware that in the past year and a half most of the responsibility for developing the overall budget projections for the Pell Grant program shifted from the Office of Student Financial Assistance to the Department's Office of Planning, Budget, and Evaluation, I cannot say if this change has had any impact upon the overall forecasting operations. The Pell Grant program has always been carefully monitored by the operational personnel within OSFA using monthly reports which reflect the year to date number of applicants; number of eligibles; the average Eligibility Index; and estimated expenditures compared to the previous year. In past years, these data have always been used by the forecasters to monitor funding levels. I would therefore assume that similar data were available within the Department this past year, which in turn should have alerted the parties responsible in December that there was going to be a funding shortfall. To my knowledge, this information was not made public however, until the first of April. I note the date as the first of April, because during the House Appropriation Subcommittee hearing on March 28, 1984,

Congressman Natcher asked Dr. Elmendorf, whether or not the $2.8 billion appropriated for the Pell Grant program in 1984 would be sufficient to cover the cost of the program with a $1900 maximum award, or would there be a need for reductions in individual awards? Dr. Elmendorf noted that he did not have the information at that time, but would let Congress know. A few days later the following statement was provided by the Education Department for the Hearing Record:

> "The Department estimates that an additional $307 million will be needed to cover 1983-84 Pell Grant activities and administrative expenses. This estimate is based on recent program data extracted from the February Pell Grant progress reports submitted to the Department by institutions. The data indicate that the estimated average award has increased from the original estimate of $937 to $990. This change was based on a review of the average expected disbursement of over 2 million Student Aid Reports (SAR) processed by the Department. Therefore, the actual disbursement or payout of Pell Grant funds will increase over our original estimate."

We began to suspect, on the other hand, that there was a funding problem in early February, when many schools began to exerience major delays in having their authorization levels increased. In fact, most of those requests were not approved until mid-April, therefore schools were forced to either withold students' second semester awards until that time or to advance student funds from institutional sources. Unfortunately, this problem created unnecessary hardship on students and schools alike and could have been avoided if the Department had been on top of the issue and had sought a supplemental appropriation or authority to borrow funds earlier.

One other reason that I believe that the Department knew of the impending shortfall earlier than April, is simply due to our understanding that they drew down the needed funds in two seperate installments. The first request to O.M.B. to borrow from FY-84 funds was made in late January or early Feburary of 1984 and consisted of about $99 million. The second request came in late April.

However in fairness to the Department, Mr. Chairman, we realize that it is difficult to accurately predict the exact annual expenditure level which will be needed for a formulae based program like the Pell Grant program. We also realize that while the program operates as a semi-entitlement program, the fact is that Congress approves a discrete annual appropriation figure and as such the Department does not have the authority to exceed that dollar level without securing additional authority. This feature has always made it somewhat difficult to respond to unanticipated expenditure increases. We also should note, that the Department of Education was very prompt in meeting the 1983-84 and 1984-85 submission dates for the Pell Grant Family Contribution Schedules and the publication and distribution of the 1984-85 Pell Grant Payment Schedule, which in turn has helped to improve the overall delivery system this year.

Therefore, the primary issue before us is whether or not the Administration is going to seek and support a supplemental Pell Grant Appropriation to cover the 1983-84 and 1984-85 funding shortfalls, or are they going to issue a revised 1984-85 Pell Grant Payment Schedule utilizing the statutory linear reduction provision which would reduce awards to needy students for this coming award year?

Given the fact that most students have already been notified by institutions of the amount of Pell Grant they can expect to receive for the 1984-85 academic year which starts July 1, 1984, and the adverse impact which would be imposed upon thousands of students if the awards were reduced, NASFAA would strongly encourage the Administration to immediately take action to secure a supplemental appropriation to cover the shortfalls. If this is not done, then the only two alternatives remaining would be to cut already announced student awards in 1984-85, or to postpone the issue until FY-85, thereby simply compounding the problem and further jeopardizing essential funding for needy students in the 1985 fiscal year!

Thank you for providing this opportunity to comment. I would be pleased to answer any questions you may have at this time.

Mr. HARRISON. Thank you very much.

I think you have enlightened us by your testimony, and the only other comment I'd make is that I did enjoy that trip to the Pennsylvania conference even though the airport was dangerous.

Passing the immediate problem, Doctor, because I think you stated your position on that pretty clearly, perhaps you could help us with the longer range problem by indicating what alterations in the Pell grant model you would think are necessary to reflect the changing student population.

Mr. MARTIN. Yes; I'd be happy to.

I think that, in fairness, the Department has done a fairly good job through the years of trying to do the modeling, and I think they, and CBO, and a few other people have perfected that.

I don't really think it's so much what we are putting into the model at this time. I think that's adequate. I think clearly we may have to look a little bit more at the nontraditional population than we have, because that is going to increase.

I think the question is that any model that we make as an estimation model is only a management tool, and the question is, what do you do with that, and if you don't look at it and don't apply some judgments to that management tool, it is not going to serve you very well.

It seems to me that the biggest weakness, if there is any—and I'm not trying to find fault—but clearly with high rates of unemployment, of all the things we have seen going on in the stagnation of the economy and other things, and knowing the trends, I just find it amazing that somebody didn't step back and say, "This is going to have some impact," and clearly on the first progress report there were beginning to be indications that the numbers were up.

So, again, I think the question is that management must use that tool and make some judgments to it. I mean the data that comes out is only as good as what goes into it, but it's how you apply the

judgments, and I think that's all we need to do, but I think that we have learned from this year, and hopefully that will sensitize some people to look at that in future years.

Mr. HARRISON. Mr. Coleman.

Mr. COLEMAN. Let me of differ with you a little bit in your testimony.

When you just mentioned the real rate of growth of personal income of families—and you feel that this is something that must be corrected in the model—you indicated that during past inflationary times, actual income grew faster than the CPI.

Isn't the real problem the fact that neither one of those statements is necessarily the guiding principle, but the fact that tuition and fee costs at most schools have gone up faster than CPI or real income growth under either scenario?

Mr. MARTIN. Yes. Let me say, Mr. Coleman, that it is a combination. I think in my written statement I do tie the two things to why there has been an increase in the average award. The first is the fact that real income has been down. It has not been growing as fast as it has in previous years. We would expect that if we obviously hold inflation down that would affect the projections.

The second point that I make in my testimony is that tuition and fees has been higher than the Consumer Price Index increases for the last couple of years.

Mr. COLEMAN. Let me ask a backdoor question. The Higher Education Act requires that certain other programs be funded at certain levels before the maximum grant is increased, and the Appropriations Committee increased it to $1,900.

Do you feel that if we take up a supplemental, we should look at the increased figures for NDSL and SEOG's and the statutory requirements that those have in order to conform with the Appropriations Committee's previous position?

Mr. MARTIN. We would certainly support that, Mr. Coleman, and let me explain to you why I think that is important. I think the Congress, in drafting the 1980 amendments and putting it together, tried very carefully to ensure that the student aid programs in title IV had an appropriate balance; a balance between the grant program, the loan programs, and the campus-based programs.

Now it is true that we are not quite in sync in terms of those statutory limits. In other words, the assumption was that they were kind of triggers for the other campus-based programs that would grow simultaneously with increases in the maximum Pell grant.

Now we are slightly below those, particularly in NDSL, Work Study, and SEOG, and our association and many of my colleagues in higher education would certainly support efforts to increase those vital programs. They provide the balance in terms of making the kinds of good student aid packages that we need, and that are equitable for needy students.

Those dollars are important. In light of the fact that we have lost, about 19 percent since 1980, student aid dollars, those funds would be very welcome as well.

Mr. COLEMAN. But that maximum grant today is——

Mr. MARTIN. The maximum grant for 1983–84 has been $1,800. For 1984–85 it will be $1,900.

Mr. COLEMAN. It will be $1,900.
Mr. MARTIN. Yes.
Mr. COLEMAN. Thank you.
Mr. HARRISON. Mr. Gunderson.
Mr. GUNDERSON. I have no questions.
Mr. HARRISON. Dr. Martin, thank you for joining us this morning.
Mr. MARTIN. Thank you, Mr. Chairman.
Mr. HARRISON. We would welcome next Ms. Katherine Ozer, who is the legislative director of the U.S. Student Association.
Good morning.

STATEMENT OF KATHERINE OZER, LEGISLATIVE DIRECTOR, U.S. STUDENT ASSOCIATION

Ms. OZER. Good morning.
Mr. Chairman and members of the subcommittee, I appreciate this opportunity to appear before you today to present the views of the U.S. Student Association on the current Pell grant funding situation.
My name is Katherine Ozer, and I am the legislative director of USSA representing students attending over 400 postsecondary institutions, 2-year, 4-year, public, and private across the country, through their individual student governments and statewide student associations.
USSA strongly supports the Pell grant as the foundation of student financial assistance upon which campus-based student aid programs and the Guaranteed Student Loan Program should be based to ensure access to a postsecondary institution.
The shortfall of $307 million in the Pell Grant Program for the current academic year recently disclosed by the Department of Education has the potential to trigger major problems for students across the country.
USSA is very concerned about the timing of the Department's notification of the shortfall, toward the middle or end of the academic year and just as the Appropriations' Subcommittees in the House and the Senate are considering the Pell grant levels for fiscal year 1985.
The immediate question, which has already been answered earlier but we feel must be answered by the Department, is why this information wasn't revealed earlier.
It seems that the Department should have triggers in their model which during the academic year would signal the increases that have occurred, allowing for adequate planning time for Congress and the administration.
Beyond the timing question, USSA is concerned about why the Department had not anticipated some of the increases in the Pell Grant Program due to the economy of the past few years affecting both the job market and the need for retraining for displaced workers.
The increased student population eligible for Pell grants is compounded by the fact that the low or no growth in real family incomes in addition to consistent increases in tuition and living costs contradicts the Pell grant model which assumes yearly increases in

the real income of U.S. families, which would force some students out of the program. This phenomenon has been the same for many other Government entitlement or assistance programs and should not have been such a surprise to the Department of Education.

USSA sees no reason to expect that this increased need for higher average Pell awards nor the increasing number of students who are eligible for the program is a 1-year aberration but is clearly a trend that must be expected and calculated for. In fact, the 1984-85 academic year could easily show an increasing demand and need for the Pell Grant Program.

Increasing interest rates and the slowdown in economic indicators of the recovery affecting the youth of this country are not very promising. This past month's overall unemployment rate showed a decline of 0.3 percent from 7.7 to 7.4 percent, but the unemployment rate for youth overall remained at 20 percent, and for minority youth at over 40 percent.

In addition, current administration proposals for a subminimum youth wage would not improve a student's ability to save money and contribute to their self-help, which is counted into the Pell grant formula for current students.

For many high school students, there is a clear incentive to enter postsecondary education or some type of training programs to gain a college degree and skills, being fully aware of the grim job prospects and possible subminimum wage scale without it.

Also, the statistics that were given by the Under Secretary Elmendorf clearly show the older students returning, which would add even more to these statistics.

USSA, on behalf of our membership students, most of whose access and ability to remain in school is dependent on the action of this Congress, urges the subcommittee to request that a supplemental appropriations bill be passed immediately.

The immediate passage of the supplemental would minimize potential confusion about the size of awards over the next 2 years and, if the administration supported the supplemental, clearly demonstrate to students that there is real support for the Pell Grant Program during the current budget and appropriations process, not presenting a false illusion to students and their parents that funds for Pell, not only for this September but for January, are in the Department of Education budget.

The total student financial assistance budget is too small to be balancing this year's prediction errors, inadequate appropriations, and the economic factors that have caused increased entry into postsecondary education on next year's students.

The future of today's student is already being mortgaged through a national budget deficit and individual students' guranteed student loans without threatening the viability or the consistency of the Pell Grant Program.

USSA feels that not only must the Pell Grant Program be preserved, but it must be expanded to meet the rising demand and commitment to providing access and excellence in education.

These problems that we are addressing today—the appropriations shortfalls, the uncertainty and potential cuts in awards—are some of the reasons why USSA has consistently supported Pell grants as a true entitlement which would eliminate both a situa-

tion such as the one we are facing and the highly political appropriations process that begins this afternoon for academic year 1985–86.

The U.S. Student Association thanks you for this opportunity to once again express our views before the subcommittee and hope that a supplemental appropriation will be requested in the immediate future to balance the books in the Pell Grant Program now, not in the fiscal year 1986 budget process which begins after November.

Thank you.

[Prepared statement of Katherine Ozer follows:]

Prepared Statement of Katherine Ozer, Legislative Director, U.S. Student Association, Washington, DC

Mr. Chairman and members of the Subcommittee on Postsecondary Education, I appreciate this opportunity to appear before you today to present the views of the United States Student Association (USSA) on the current Pell Grant funding situation. My name is Katherine Ozer and I am the Legislative Director of USSA representing students attending over 400 postsecondary institutions; two year, four year, public and private, across the country through their individual student governments and statewide student associations.

USSA strongly supports the Pell Grant as the foundation of student financial assistance upon which campus based student aid programs and the Guaranteed Student Loan program should be based to ensure access to a postsecondary institution. The shortfall of $307 million in the Pell Grant program for the current academic year recently disclosed by the Department of Education has the potential to trigger major problems for students across the country.

USSA is very concerned about the timing of the Department's notification of the shortfall - at the end of the academic year and just as the Appropriations' Subcommittees in the House and Senate are considering the Pell Grant levels for FY 1985. The immediate question that we feel must be answered by the Department is why this information wasn't revealed earlier. It seems that the Department should have triggers during the academic year that would signal the increases that have occurred allowing for adequate planning time for Congress and the Administration.

Beyond the timing question, USSA is concerned about why the Department had not anticipated some of the increases in the Pell Grant program due to the economy of the past few years affecting both the job market and the need for re-training for displaced workers. The increased student population eligible for Pell Grants is compounded by the fact that the low or no growth in real family incomes in addition to consistent increases in tuition and living costs contradicts the Pell Grant model which assumes yearly increases in the real income of U.S. families

which would force some students out of the program. This phenomena has been the same for all government entitlement or assistance programs and should not have been such a surprise to the Department of Education.

USSA sees no reason to expect that this increased need for higher average Pell awards nor the increasing number of students who are eligible for the program is a one-year aberration -- but is clearly a trend that must be expected and calculated for. In fact, the 1984-85 academic year could easily show an increasing demand and need for the Pell grant program. Increasing interest rates and the slowdown in economic indicators of the "recovery" affecting the youth of this country are not very promising. This past month's overall unemployment rate showed a decline of .3 of one percent from 7.7 percent to 7.4 percent, but the unemployment rate for youth overall remained at 20 percent and for minority youth at 44 percent. In addition, current Administration proposals for a sub-minimum youth wage would not improve a students' ability to save money and contribute to their "self-help" which is counted into the Pell Grant formula for current students. For many high school students, there is a clear incentive to enter postsecondary education to gain a college degree and skills being fully aware of the grim job prospects and possible sub-minimum wage scale without it.

USSA on behalf of our membership -- students -- most of whose access and ability to remain in school is dependant on the action of this Congress -- urges the Subcommittee to request that a supplemental appropriations bill be passed immediately. Without access to sophisticated computer models, my simple calculation of the Administration's projected average award for FY 1984, based on a $1900 maximum award, of $1,073.00 and the Administration's revised current estimate of 2.83 million recipients would require an appropriation of $3.036.59 billion. This would then necessitate a supplemental appropriation of $543.59 million just to maintain this past year's level for academic year 1984-85. The immediate passage of the supplemental would minimize potential confusion about the size of awards over the next two years and if the Administration supported the supplemental, clearly demonstrate

to students that there is real support for the Pell Grant program during the current budget and appropriations process -- not presenting a false illusion to students and their parents that funds for Pell are in the Department of Education budget.

The total student financial assistance budget is too small to be balancing this year's prediction errors, inadequate appropriations, and the economic factors that have caused increased entry into postsecondary education on next year's students. The future of today's student is already being mortgaged through a national budget deficit and individual student's Guaranteed Student Loans without threatening the viability of the Pell Grant program. USSA feels that not only must the Pell Grant program be preserved, but it must be expanded to meet the rising demand and commitment to providing access and excellence in education. These problems that we are addressing today -- the appropriations shortfalls, the uncertainty and potential cuts in awards are some of the reasons why USSA has consistently supported Pell Grants as a true entitlement which would eliminate both a situation such as the one we are facing today and the highly political appropriations process that begins this afternoon for academic year 1985-86.

The United States Student Association thanks you for this opportunity to once again express our views before the Subcommittee and hope that a supplemental appropriation will be requested in the immediate future to balance the books in the Pell Grant program now -- not in the Fiscal Year 1986 budget process which begins after November. Thank you.

Mr. HARRISON. Thank you, Ms. Ozer.

I guess I just have one question, and perhaps you are in a peculiarly good position to answer. We talk about shortfalls. I wonder if you could give us some estimate of what would be the effect of these shortfalls on students if, in fact, they were carried through into reduced grants.

Ms. OZER. Well, especially in the comments that were made about not guaranteeing that there would not be any reduction come the middle of the year, that creates a great level of uncertainty overall. Also many students who begin their studies in the middle of the year, not having the funds they had anticipated will have one of several results: either to withdraw or to work additional hours and sacrifice their educational opportunities.

So I think it is a major problem that has to be dealt with right away.

Mr. HARRISON. Thank you.

Mr. Gunderson.

Mr. GUNDERSON. No questions, thank you.

Mr. HARRISON. Ms. Ozer, thank you for joining us. We thank you all for the benefit of your views, and the hearing is adjourned.

[Whereupon, at 11:25 a.m., the subcommittee was adjourned.]

O